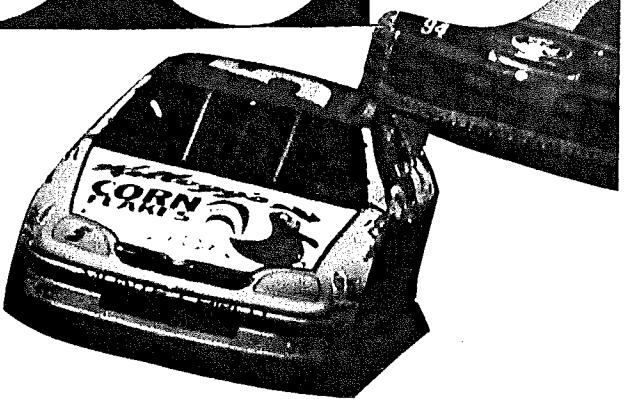


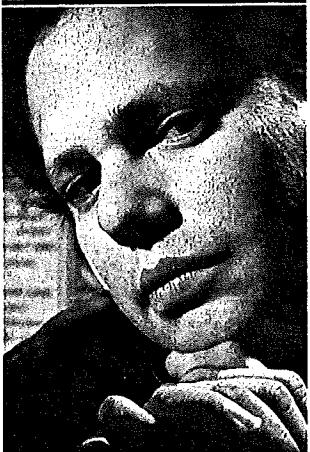
July 3, 1995

\$4.00 (Canada \$4.50)

forbes



80 In a digital world, can
the country's daily newspa-
pers keep the lucrative want
ad business to themselves?



Without classified advertising, newspapers would be in desperate straits. Can they keep their grip on the business as it moves from newsprint to modem?

Help wanted: on-line publisher

By David C. Churbuck

LET'S SAY you just moved to Chicago and want an apartment. You pay \$1.50 for a Sunday *Chicago Tribune* and paw through its 2-pound classified section. Two hours later you have circled 32 ads that look promising—2 bedrooms, no more than \$1,000 a month, within 3 miles of your office.

What a waste—of your time, of newsprint and of fuel to schlepp the classified section all over town, mostly to subscribers who don't even glance at the classifieds because they aren't in the market for its wares. How much better it would be to sort the apartment listings on a computer attached to an on-line service.

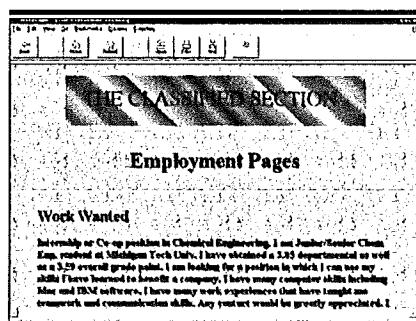
But the Tribune Co., publisher of the Chicago paper, needs those classifieds. These ads brought in \$385 million last year for the Trib and the company's other dailies. That's a lot of revenue for a newspaper group whose operating income (profits before depreciation, interest and taxes) was only \$359 million.

Put it this way: Minus classifieds, the *Chicago Tribune* would be a pale image of what it is today. Most metropolitan newspapers are in the same boat and so are many weeklies. Classified advertising hauled in \$12.5 billion for daily newspapers last year, according to Miles Groves, chief economist of the Newspaper Association of America. That represented 37% of their total revenue and a 12% increase over classified revenue the year before.

Newspaper publishers are well aware of the threat. As advertising goes digital, they want to preserve the business for themselves. Tribune Co.,

which doesn't relish buying maybe 50,000 tons a year of paper on which to print its classifieds, publishes classifieds on America Online and its help wanted section on the Internet.

But can the country's 1,538 dailies keep the lucrative want ad business to themselves? These papers, almost all of them de facto monopolies, can readily fend off competitors in the print medium. That's because the cost of entry to a potential invader—replicating the fleet of delivery trucks and newsstands, for instance—is just too high. Not so electronic classifieds.



Newspaper killers?

From aviation to yachting, dating to jobs, the Internet's World Wide Web has embraced classified advertising as one vehicle for making money on-line.

Any enterprising fellow can get into this business.

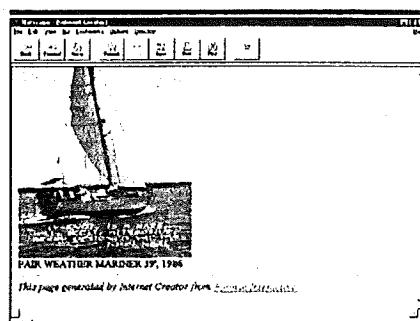
Here's one: Gary Kremen, 31, principal owner of Electric Classifieds, Inc. in San Francisco. With the help of \$1.7 million in venture capital from outsiders—including Ronald Posner, a software industry veteran

(*FORBES*, Apr. 29, 1991)—Kremen has opened a classified advertising business on the Internet's World Wide Web. So far this two-month-old service is limited to lonely heart ads (<http://www.match.com>) and has only 3,000 listings. But this is just a warm-up. Next year Kremen will expand into real estate and used-car ads.

Electric Classifieds is priced to attract business. You don't pay to post ads or to read them. If you want to ask an advertiser for a date, you will pay \$5 to \$8 to send an E-mail message to that person. The rental and car ads will work the same way: The person responding to the ad will pay to get in touch with the advertiser.

The digital world knows no geographic bounds. It happens that almost all of Kremen's business to date has come from the San Francisco area, but there's no reason he can't take ads just as easily from Houston or Chicago. Viewers can electronically screen ads, if they want, in order to see only those from nearby. Internet connections across the country are just as cheap as connections across town.

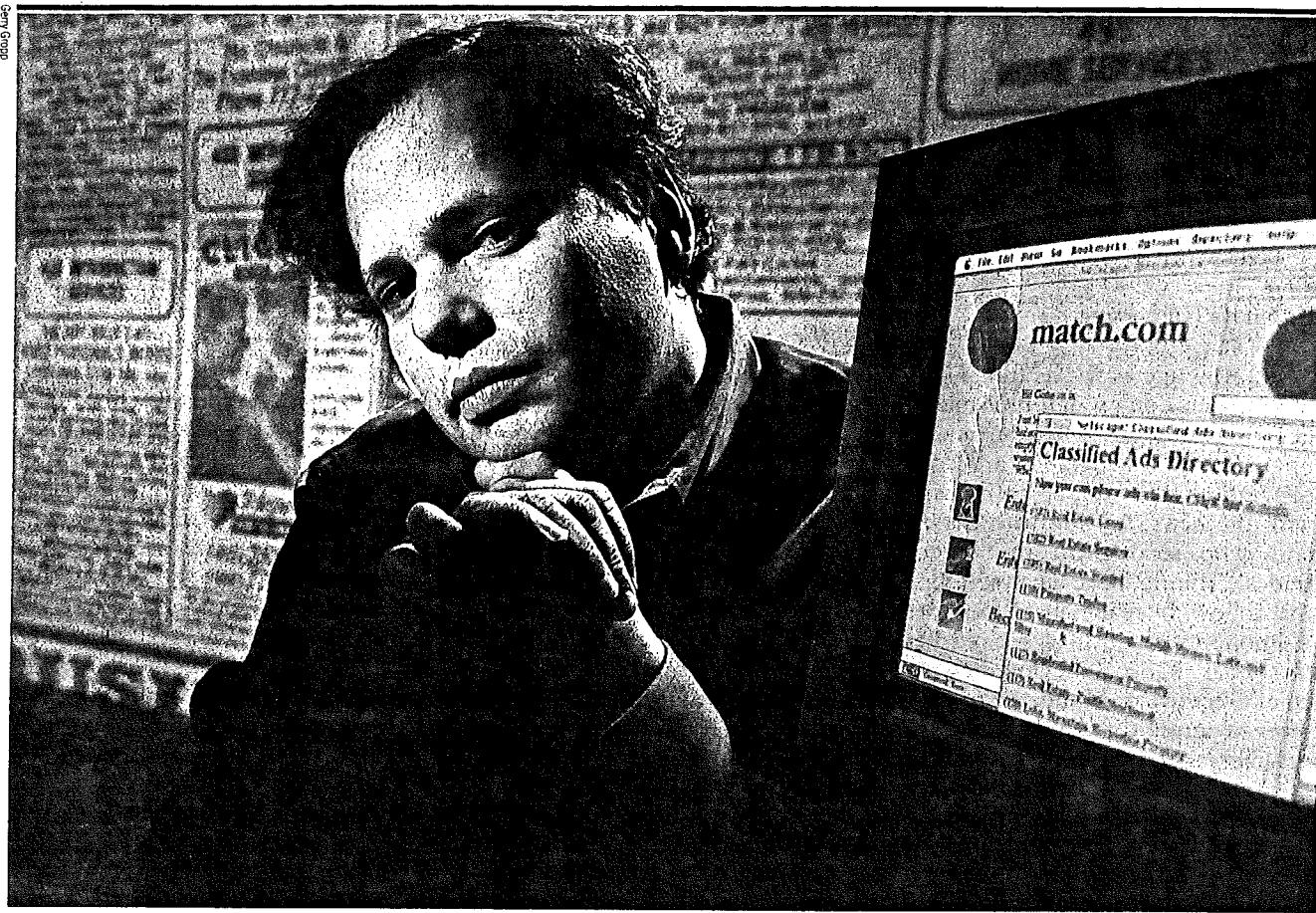
It doesn't cost much to run an on-line service like this. Software captures the necessary data from advertisers; software dispenses the information to



viewers, who can sort or screen it just about any way they want.

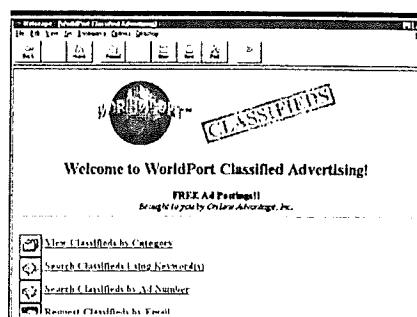
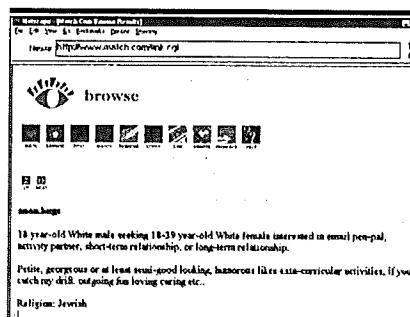
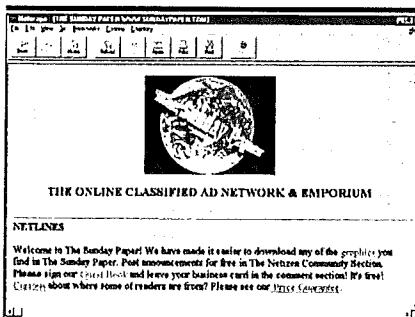
Don't count the newspaper out yet. The medium has faced technological threats before. Newspaper publishers saw the value in broadcast licenses decades ago and snapped many of them up. Newspapers were willing to pour tens of millions of dollars into videotex, a sort of on-line service that was before its time and failed.

The newspaper industry was also, beginning in the 1970s, the first big user of networked word processors.



Electric Classified's Gary Kremen

His system sorts ads according to the reader's location and preferences.



Modern descendants of those early data processing systems are now used to produce the classifieds that go into today's papers.

Responding to the obvious threats to their revenue base, newspapers not only are launching their own on-line efforts, but also are banding together. This spring, nine big newspaper chains formed the New Century Network to establish a common technology for sharing stories and advertising over the Internet.

Says Eric Meyer, who runs an on-

line journal about on-line media (<http://www.newslink.org>), "Newspapers have a tremendous advantage, if they don't blow it, and that's the infrastructure to take the ads, run the ads and bill for the ads."

One thing is certain, however: Even if the newspapers do hang on to the business, it will become less profitable for them, especially if they must compete with vendors who charge for the ads only on a per-inquiry basis.

Here's another threat to newspapers: The big winners in on-line classi-

fieds may be neither newspapers nor tiny upstarts. They may be media giants with name recognition and software or communication skills. An MCI or a Microsoft could emerge with a big slice of that \$12.5 billion pie.

Bottom line: Newspaper stocks, despite Warren Buffett's well-known fondness for them, are at best a hold. Stocks of newsprint producers, too, are endangered: No matter who captures the on-line medium, the days of the 2-pound classified section are numbered.